

## Message Text

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ACTION AF-05

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 9032

C O N F I D E N T I A L LAGOS 2736

LIMDIS

E. O. 11652: GDS

TAGS: ENRG NI

SUBJECT: GOWON POSITION ON PETROLEUM NEGOTIATIONS

REF: LAGOS 2655 AND 2356

1. BEGIN SUMMARY: IT DIFFICULT TO RECONCILE GENERAL GOWON'S EASY ASSURANCE IN HIS BUDGET MESSAGE ABOUT GOOD PROGRESS IN PARTICIPATION NEGOTIATIONS WITH ASIODU'S TOUGH BARGAINING STAND VIS- A- VIS OIL COMPANIES. ASIODU CLAIMS GOWON BACKING CONFRONTATION APPROACH TO ACHIEVE MORE THAN WAS OBTAINED BY PERSIAN GULF STATES. EMBASSY DOUBTS THAT GOWON PREPARED JEOPARDIZE ESSENTIAL OIL REVENUE BY GOING SO FAR AND BELIEVES COMPANIES CAN OBTAIN SETTLEMENT BASICALLY EQUIVALENT TO PERSIAN GULF MODEL. END SUMMARY.

2. IN GENERAL GOWON'S BUOYANT APRIL 1 BUDGET MESSAGE HE CONVEYED IMPRESSION THAT THINGS ARE GOING WELL AND WILL GET EVEN BETTER IN PETROLEUM SECTOR, HE EMPHASIZED NIGERIA'S GROWING DEPENDENCE ON OIL BY PROJECTING - PERHAPS A LITTLE OPTIMISTICALLY - THAT CRUDE PRODUCTION WOULD REACH 2.3 MILLION BARRELS PER DAY BY END OF YEAR, THEREBY CONTRIBUTING " WELL OVER" 75 PERCENT OF TOTAL GOVERNMENT REVENUE FOR FISCAL YEAR. HIS STATEMENT THAT " VERY GOOD PROGRESS" HAS BEEN MADE TOWARD PARTICIPATION IN

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EXISTING CONCESSIONS WHICH WILL GIVE NIGERIA EVEN GREATER CONTROL OVER HER NATURAL RESOURCES AND "ULTIMATELY" INCREASED OIL REVENUE ALSO SERVED TO REASSURE NATION THAT THERE IS NO THREAT TO CONTINUATION OF MASSIVE RETURNS FROM OIL UPON WHICH CURRENT AND PROJECTED PROSPERITY AND GROWTH ARE BASED.

3. GOWON STATEMENT ON PARTICIPATION STANDS IN SHARP CONTRAST TO TOUGH BARGAINING POSITION TAKEN BY PERMSEC MINES AND POWER ASIODU IN PARTICIPATION NEGOTIATIONS WITH OIL COMPANIES. IN MARCH 21 MEETING WITH SHELL- BP, ASIODU INVOKED THREAT OF IMPOSING SETTLEMENT BY GOVERNMENT FIAT TO ACHIEVE GOVERNMENT DEMANDS WHICH HE KNOWS SO EXCEED PERSIAN GULF PARTICIPATION FORMULA AS TO BE UNACCEPTABLE TO COMPANIES (LAGOS 2356). ACCORDING US COMPANY REP ASIODU ASSERTED TO SHELL- BP THAT HE HAD FULL BACKING OF GENERAL GOWON WHO, ASIODU CLAIMED, WAS PREPARED TO MAKE PUBLIC STATEMENT COMMITTING NIGERIA TO ACHIEVING THESE DEMANDS IF COMPANIES REMAIN INTRACTABLE.

4. COMMENT: WE CAN HOPE THAT BUDGET MESSAGE, RATHER THAN ASIODU, REFLECTS BASIC NIGERIAN POSITION ON PARTICIPATION. AND THERE ARE GOOD REASONS TO BELIEVE IT SHOULD.

A. IF, AS ASIODU CLAIMS, GENERAL GOWON WERE READY TO ADOPT CONFRONTATION TACTICS TO FORCE A SETTLEMENT, IT WOULD MARK A RADICAL SHIFT IN CHIEF OF STATE'S APPROACH TO ECONOMIC NEGOTIATIONS WITH FOREIGN PRIVATE INTERESTS. UNTIL NOW GENERAL GOWON HAS INSISTED ONLY ON MFN TREATMENT FOR NIGERIA IN PETROLEUM NEGOTIATIONS. HE BELIEVED THE LEADERSHIP ROLE IN THE BATTLE FOR BETTER TERMS SHOULD BE CARRIED BY MORE AFFLUENT PRODUCERS, E. G. PERSIAN GULF COUNTRIES. THIS SAME AVOIDANCE- OF- CONFRONTATION THESIS ALSO MARKED HIS APPROACH TO GOVERNMENT PARTICIPATION IN MAJOR COMMERCIAL BANKS LAST YEAR.

B. GENERAL GOWON'S APPROACH HAS YIELDED RICH DIVIDENDS. NIGERIA HAS GOTTEN AS GOOD A DEAL AS OTHER OIL PRODUCERS WITHOUT EXPENDING GREAT EFFORT. INDIGENIZATION MEASURES HAVE PROGRESSED NICELY IN OTHER SECTORS OF THE ECONOMY WITHOUT SCARING OFF FOREIGN INVESTORS AND TECHNICIANS. MOREOVER, NOW THAT SIZEABLE FUNDS ARE IN HAND IT IS POSSIBLE TO ACCELERATE DEVELOPMENT PACE BY A QUANTUM JUMP. BUT IT IS CLEAR THAT  
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MORE -- NOT LESS -- FOREIGN CAPITAL AND TECHNOLOGY WILL BE

NEEDED IF EFFORT IS TO BE FRUITFUL. ANY SWITCH AT THIS TIME TO CONFRONTATION TACTICS WOULD ALMOST CERTAINLY JEOPARDIZE NIGERIA'S ABILITY TO ATTRACT THE CAPITAL AND TECHNOLOGY IT NEEDS TO STEP UP DEVELOPMENT EFFORT.

C. MOREOVER, MOST NIGERIAN LEADERS, INCLUDING MILITARY OFFICERS, CIVIL SERVANTS AND BUSINESSMEN, ARE ACUTELY AWARE OF HOW MUCH THE CURRENT PROSPERITY DEPENDS ON A STEADY AND GROWING STREAM OF OIL REVENUE. THEY WOULD ALMOST CERTAINLY QUESTION SHARPLY ANY PROPOSAL TO SHIFT TO RADICAL TACTICS THAT COULD THREATEN THE FLOW OF OIL REVENUES THAT CARRY THE CURRENT BOOM. FOR EXAMPLE, FINANCIAL PLANNERS HERE ARE CONVINCED THAT MOVE AWAY FROM IMPORT CONTROLS WAS A KEY TO RATIONALIZING APPROACH TO DEVELOPMENT. YET, ANY SHUT-DOWN OR EVEN SHARP CURTAILMENT OF OIL PRODUCTION FOR EVEN A BRIEF TIME WOULD JEOPARDIZE THIS POLICY AS FOREX RESERVES NOW COVER BARELY THREE MONTHS' IMPORTS.

D. WE BELIEVE THE OIL COMPANIES HERE HOLD KEY CARDS AND IF THEY PLAY THEM CAREFULLY, FMG WILL SEE THE WISDOM OF ACCEPTING A SETTLEMENT YIELDING BENEFITS ROUGHLY EQUIVALENT TO THOSE OBTAINED BY PERSIAN GULF PRODUCERS. COMPANIES COULD OFFER A FEW FRILLS FOR NIGERIA OVER BASIC PERSIAN GULF TERMS PERMITTING FMG NEGOTIATIONS TO DEMONSTRATE HOW EFFECTIVELY NIGERIA'S INTERESTS HAVE BEEN DEFENDED. THESE CONCESSIONS COULD BE OF MINIMAL FINANCIAL SIGNIFICANCE AND, AS SUCH, WOULD BE JUSTIFIABLE TO PERSIAN GULF COUNTRIES IN TERMS OF SPECIAL NIGERIAN SITUATION. AFTER MAKING SUCH AN OFFER COMPANIES COULD STAND FAST AGAINST ANY EXORBITANT NIGERIAN DEMANDS WHICH WOULD CARRY DANGER OF "LEAP-FROGGING" PG SETTLEMENT. SUCH AN APPROACH WOULD SEEM CLEARLY IN COMPANIES' INTEREST -- ONLY TEN PERCENT OF GULF'S PRODUCTION AND 17 PERCENT OF ITS PROFITS CAME FROM NIGERIA IN 1972 AND COMPARABLE FIGURES FOR MOBILE ARE EVEN SMALLER. THESE COMPANIES CERTAINLY WOULD NOT WANT TO RISK A WORSENING OF THEIR POSITION IN PERSIAN GULF WHERE THEIR INTERESTS ARE COLLECTIVELY MUCH LARGER, BY AGREEING HERE TO TERMS THAT WOULD RISK BREAKING PERSIAN GULF FORMULA.

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